Who doesn’t love an inspiring “rags-to-riches” story? We’re fascinated when we learn about a Harvard dropout who fails in his first venture but goes on to build one of the most successful computer software companies ever. We’re enamored with the young man who sold Coke bottles to stay in school and ate charity meals before collaborating with another young man in his parents’ garage to create the world’s first personal computer. His creation ultimately built the world’s most valuable company in terms of market capitalization.

Why do we love these stories? Because many of us start off with nothing and aspire to make a success of our lives. They help us believe that anything is possible. But, some people find it’s hard to imagine rich and famous people ever struggling for money. While all success stories are not of the rags-to-riches variety, what is lost on those with that mindset is that the vast majority of successful people began their careers from the same hole in which we all start. It’s difficult for the average person to fully gauge, let alone appreciate, the time and money commitment that goes into building a successful business or career.

**A REAL-WORLD SUCCESS STORY**

I could blindly pick from the files of my high net worth clients and find story after story of how they began their climb in settings familiar to most people. One in particular, I’ll call John, is the founder of a very successful multinational company with a thousand employees. But John struggled for a long time before he made his first dollar of profit. Married right out of college, he and his wife started a family early, and they both worked...
at various jobs just to maintain a modest lifestyle while he pursued his entrepreneurial passion.

It was only after he had sunk every dime he had into his venture, paying his employees while denying himself a salary, that it began to generate the kind of profits that could support his modest lifestyle. Ten years later, he took his company public, and his paper net worth rocketed to $100 million. His family now enjoys a wealthy lifestyle. They live in a mansion on 10 acres in upper New York State, with horses, a small vineyard, and a staff of seven. As is typical of many of my wealthy clients, John remains the same decent and grounded person he was when he lived in a two-bedroom apartment 20 years ago.

His will probably never be the rags-to-riches story people will talk about, but John should be an example for anyone who finds himself on the path to success and riches. You see, John didn’t just suddenly wake up one day to find he was a multimillionaire (although that does happen—lottery winners, pro athletes, instant-celebrity performers, etc.—but that’s a different story). He did a lot of planning along the way to get it right.

As the son of very prudent parents who diligently saved their money for his college education, John believed in planning. He also believed in surrounding himself with competent advisors. Even before his business took off, he had devoted time and energy to develop a financial blueprint for his family. A lot would change in his financial life along the way, but he understood the value of staying engaged in planning so he could feel in control of his financial future.

In addition to financial planning, John sought the advice of legal professionals specializing in business. As his business grew, he surrounded himself with business experts who coached and mentored him. John continued to pursue educational opportunities to further his personal and business development (including a Dale Carnegie course at the age of 55). And he eventually formed a team of advisors who would coordinate all of the above with a long-term investment strategy. He accomplished all of this while he spent an inordinate amount of time working on his business. He also gave back to his community with generous amounts of his time and money.

The obvious point here is John’s road to success was not only paved with challenges, it was built with many pieces and a significant investment before he got to the next level. There was just one piece missing, and for someone in John’s position its absence had the potential to take almost everything he had worked for away from him. As he would later learn, the missing piece of the puzzle was a comprehensive personal risk management strategy.

Through all of the years of building his business and climbing the wealth ladder, John continued his relationship with his original property and casualty agent. In fact, he was same agent his father had used more
than 30 years ago. John did update his homeowners insurance on a new
house he bought; he even bought a million-dollar umbrella policy as his
attorney advised. In all, John’s agent helped him to address most of his
personal risks, but it was done incrementally through a hodgepodge of
insurance policies.

As John’s wealth grew, so did his risk exposure. Nothing was done to
assess the risks or determine the true extent of his exposure. John spent most
of his time working on his business, which, as you might expect, was pretty
well insured against business liabilities. So, as you also might expect, he had
little time to consider the personal exposure he was amassing, or, if he did,
he felt he had sufficient protection through his existing policies. It wasn’t
that John wasn’t thorough in his planning, it’s just that he and his advisors
did not understand the personal risk management needs of high net worth
individuals.

A Riches-to-Rags Story?

Flash forward to September 2006, when John and his family moved into
their new home, a beautiful, expansive colonial replete with a guesthouse
and another two-story house to be used as quarters for his growing staff.
This was before he took his company public. Still, through a sound invest-
ment plan, and the sale of a part of his business to a private equity firm,
John’s net worth had grown to $30,000,000, half of which resided in his
equity share of the company.

While John and his family were out of town, the housekeeper, Shauna,
invited her 10-year-old niece to spend a few days with her. This was a clear
violation of John’s rules. The staff quarters were big enough so the tem-
porary addition of little girl would not impose on anyone. Shauna left her
niece to play in the staff quarters while she went to the main house to clean.
When she went back an hour later to check on her niece, she found her lying
in a lifeless heap on the ground outside the quarters, her head bloodied.
Looking up, Shauna saw the splintered wood that had been the railing of
the second floor widow’s walk. She called 911, and the paramedics arrived
20 minutes later.

Shauna’s niece suffered severe injuries to her brain. She would be unable
to lead a normal life, and she would require lifetime, round-the-clock nurs-
ing care. A jury awarded the girl’s family $25 million dollars—$5 million
for pain and suffering and $20 million for medical care—far more than
was covered by John’s $1.3 million personal liability coverage from his
homeowners and umbrella liability policies. John was forced to liquidate his
equity in the company to pay the judgment. He didn’t lose everything, but
his life would change drastically.
Or a Cautionary Tall Tale?

Obviously, there is a lesson in this for everyone, but first I should tell you that the incident with Shauna and her niece never happened. However, I can tell you it’s not unlike the scenario I created for John when I met with him to discuss his personal risk management plan. I actually met John at a community event about the time in his life described in the beginning of this story—before he became extremely wealthy from his IPO, and when he was considering purchasing the colonial. We were introduced through our wives who worked together on the community event. For that reason, we fell into a comfortable mode as we struck up a conversation.

He mentioned that he and his wife had fallen in love with a beautiful estate-like property upstate. He went on about his plans to build an equestrian center for his daughters, to house his friends in the guesthouse, to eventually build a vineyard, and, in time, to add a garage to house his antique motorcycle collection. I knew he wasn’t bragging. I could tell he was genuinely passionate about his plans and he needed an ear to express them.

I congratulated him on his plans, and mentioned that I was a personal risk management specialist. I then asked him to give me a ballpark figure of what he thought his overall risk exposure would be. That opened the door to a conversation about his understanding, or lack thereof, of homeowners insurance, liability coverage, and, generally, the amount of exposure people in his position have. I shared that I work with a number of high-net-worth individuals who seem to do everything right when they get to the next level, but that most overlook their greater exposure to risks. He asked me what I do differently for these clients that he hasn’t already done, so I told him.

I could see his brain working, and the newly formed sheen across his forehead told me he was growing uncomfortable with the conversation. Being the gentleman he is, he thanked me for my insight and then excused himself with a warm smile and a two-handed handshake. I thought that might be the last time I would see him. Two days later, my cell phone rang and an unknown number popped up. It was John, calling from his car phone to ask if I could visit with him and his wife at his home.

Now, four years and about $70 million of additional net worth later, John has a comprehensive risk management plan in place. It took a coordinated, collaborative effort with his advisory team, of which I am now a member. The plan includes an annual risk assessment, periodic appraisals, an annual update of his liability coverage, and a review of risk mitigation and security measures. There is even a response plan in place in the event of a kidnap/ransom situation.
Lessons Learned

I had always wondered what was going through John’s mind during our first conversation when he became visibly uncomfortable over the topic of risk. So at an appropriate moment when we were alone, I asked him about it. “John, do you recall when we first met?” He replied that he sure did. I went on, “You really appeared to be upset when we were discussing your plans for your new home, and then I brought up your risk exposure. I really thought you were upset with me. What was going through your mind then?”

He paused and smiled. “It’s not often someone tells me something about my personal finances that I don’t already know. But that day I learned something I didn’t know, and I realized at that moment that not knowing could have cost me dearly. Does that make sense?”

“Perfect sense” I replied.

Like all of my high net worth clients, John is extremely intelligent and financially astute. And, more so than most, he is also a planner. He takes care to set his sights and then follows his path with deliberate steps. But, when climbing the ladder of success and wealth, it’s very easy to lose sight of the forest for the trees, especially if you are simply unaware of the dangers within. For John, and nearly every high net worth individual with whom I’ve worked, it wasn’t immediately apparent that with more wealth comes greater exposure. What worked for them at the bottom of the ladder can’t come close to providing the protection they need at the next level. As John learned before it was too late, nothing short of a comprehensive risk management plan is sufficient for protecting people of wealth from the unexpected.

WHAT RISKS ARE YOU FACING?

In the chapters that follow you will be introduced to a variety of risks facing high-profile and high net worth individuals. Consider this your risk management checklist as you evaluate your own situation. Chances are, there are several areas of exposure; but all you need is one to jeopardize all or part of what you’ve worked hard to build for you and your family.

In this digital age it is easier than ever to do many things on our own faster and more cost effectively than ever before. Experience reveals to me that along with this ease come costly errors, which most insurance consumers aren’t even aware are happening. Listed here are the Top Five Insurance Planning Errors I come across as I meet with new clients.
THE TOP FIVE INSURANCE ERRORS PEOPLE MAKE PLANNING ON THEIR OWN

1. *Buying insurance like a commodity*: I hate to be the bearer of bad news to many of you self-doers out there, but insurance is not a commodity. The onslaught of advertising we hear on a daily basis from a variety of insurance companies leads us to believe that it is. After all, why not be able to negotiate, understand, and purchase a complex legal and financial instrument on your own by computer or 800 number in a matter of minutes and save a few dollars! Do you really understand all the forms, laws, and coverage nuances? Never mind the ability to be certain the coverage integrates as it should with other elements of your insurance portfolio. My experience reveals to me that better than 7 of 10 people get one or more critical pieces of the puzzle wrong when they decide they can be their own insurance professional.

2. *Insurance purchased from multiple agents/sources*: Clients with advanced insurance planning needs often have what I call a scattered insurance program when I first meet with them. They bought home, auto, umbrella, and valuables insurance from the agent that insures their primary residence. When they bought the vacation home on the lake, the local real estate agent referred the local agent and that person handles the vacation home. What comes next? Exactly—a boat for water-skiing and an old Jeep to drive around the mountains. The boat gets insured with one direct writing insurance company and the Jeep goes to another direct writer. Do we see a recipe coming together for what I call an insurance financial disaster?

3. *My insurance person is real nice*: Most insurance professionals are very nice, personable individuals. I consider it a prerequisite for the job as communication with and attention to my clients constitutes my entire day. Just because these folks are real nice does not make them great at their job. What do you perceive their job to be? I break the insurance community into two distinct groups. The first group I call Price Shoppers. You provide them with your basic information and they break from the starting gate and make their way around the insurance racetrack talking to the various players in the insurance market they believe will price (continued)
your coverage the lowest. With some speed and a good whip-hand they hope to finish first with the cheapest price and win the order. The second group are the Risk Managers, true planners and fact finders. This group takes it slow and spends the time to learn about your lifestyle and goals, and has the tools to uncover all the exposures you face. After using their tools and knowledge they then embark on the design of a plan for you to transfer risk from your balance sheet to the insurance company. This plan then gets reviewed with you and your dream team to be sure all exposures are addressed and to provide risk-reducing strategies you can use going forward. The moral of the story here is to work with a professional at insurance planning and risk transfer. This will most likely be a nice person whose motivation includes pride in work and providing solutions to keep you out of trouble.

4. **Save a few dollars yet risk millions!**: All of us have heard it since we were children: Don’t be penny-wise and pound-foolish! Give me a dollar for the number of conversations I’ve had with clients where they asked to strip away critical coverage so they could get to the number they have in mind for their insurance budget and I would be retired already. Insurance pricing can be a tricky lion to tame. Address this lion the wrong way and you may just lose your arm, if not more. The deductible provides the most effective pricing weapon you have at your disposal as a consumer. The question becomes one of risk and reward. I present the question to my clients this way: “Which check is easier for you to write, the one for the higher deductible of $10,000 on your home or the one for the $300,000 of dwelling coverage and $100,000 of valuables you are looking to remove?” The answer appears obvious; however, this illustrates where working with the right insurance professional can help you think of new ways to address risk and secure your financial future.

5. **Unaware of what to purchase**: Wouldn’t it be great if you could go to a cardiologist’s office without incurring the cost of paying the cardiologist and his technicians? Sure, just walk in, pay a reduced fee, take your time using the machinery, then evaluate the results yourself as they print out. With some luck it won’t take as long as actually meeting with the cardiologist just to listen to him speak to you in medicalese. I don’t know about you, but I would have no idea of what I am looking at and how to properly use
that information going forward. How does this far-fetched idea relate to insurance? While your physical life is not at risk with insurance planning, your financial life could be. This relates to error #1. Personal insurance exposures come in several forms. These include the activities we participate in (boating, jet-skis, snowmobiles, ATVs, RVs, vacation homes, collectibles, public visibility, volunteering as board members, personal aviation, race driving, and more). Each of these opens a whole new set of insurance conversations and needs to be prescribed the right remedy to keep you out of harm’s way. Don’t limit your idea of personal planning to the products you hear advertised most. Analysis of your lifestyle, activities, and possessions is the surest way to see you are not leaving your wealth exposed.